

**CITY OF GOODYEAR
CITY COUNCIL ACTION FORM**

SUBJECT: Council will receive and discuss the merits of a Liability Insurance Reserve Fund to be utilized to fund increased deductibles and unanticipated losses in the future.

STAFF PRESENTER: Dean Coughenour
COMPANY
CONTACT:

RECOMMENDATION:

Council approve the establishment of a Liability Reserve Fund in the amount of \$140,000.

COMMUNITY BENEFIT:

Through the stabilization of our liability claims deductible account we will be able to move toward higher deductible/retentions at lower premiums with minimal financial impact. This predictable expenditure of funds will provide for a long term reduction in the cost of insurance. These savings can then be utilized to fund other projects for the benefit of our Citizens and the public at large.

The establishment of a Liability Reserve Fund will allow the City to fund unanticipated deductible losses and increase future deductibles/retentions.

DISCUSSION:

Prior to the 2003-2004 policy year the City had a \$10,000 deductible for Municipal Liability claims, (this includes land use liability). This was increased to a \$35,000 deductible in the 2003-2004 policy year. With this change it is estimated the City will save a net of \$100,000 over a five year period. For the 2004-2005 policy year and beyond, staff has recommended to Council a change in deductible from \$35,000 to \$75,000. If approved this increase is estimated to save the City an additional \$200,000 over the next five years.

Currently the City has a budget for claims deductibles in the amount of \$110,000. The following chart shows:

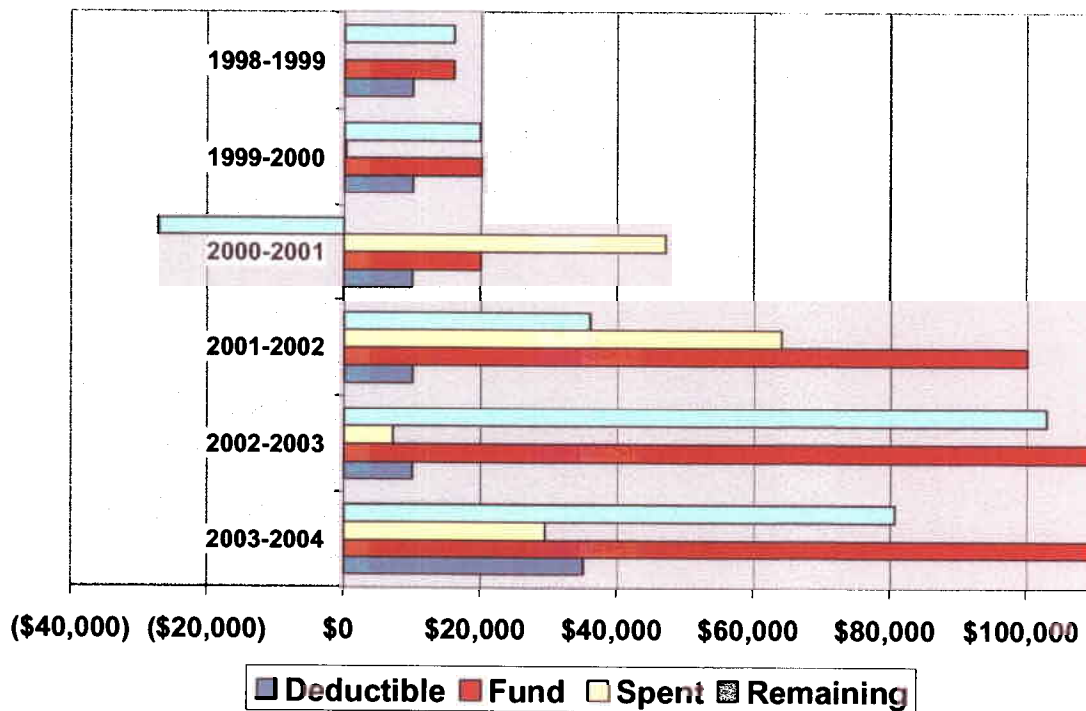
The "Deductible" level each year.

Our total "Fund" budget each year.

The funds we have "Spent".

The total funds "Remaining" or unencumbered at the end of the fiscal period.

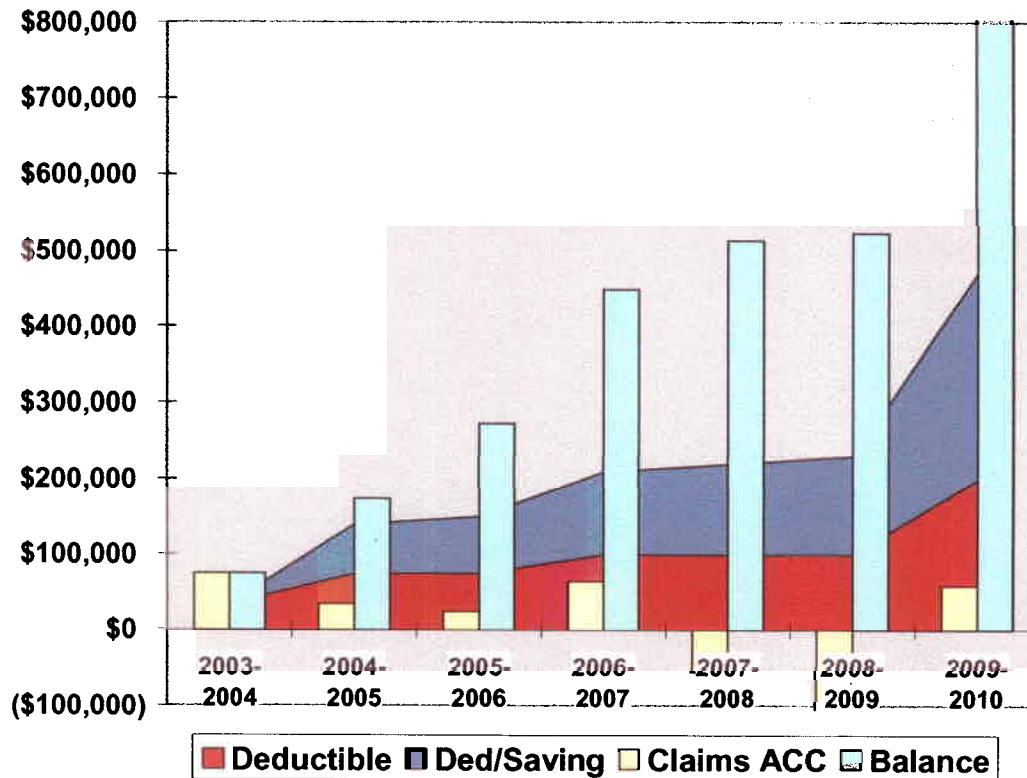
History of Claims Deductible Account



The "Claims deductible" line item has been sufficient to pay for deductibles incurred over the last three (3) budget years. As deductibles increase there will come a year where the claims deductible account will be insufficient to meet the claims deductibles payments during a year of adverse losses. It is anticipated that as our premiums increase, (due to an increase in exposures), that an increase in our deductibles/retention may be appropriate. Without a Liability Insurance Reserve Fund an increase in our claims deductible line item may be required.

Staff recommends that Council set aside the funds not expended during each fiscal year, beginning with the current 2003-2004 fiscal period, from the claims deductible line item to establish and maintain this Liability Insurance Reserve Fund. This line item is currently \$110,000. Additionally, staff recommends that Council set aside each year, the realized premium savings of changing our deductible on our General Liability, Errors and Omissions, and Land Use Liability from \$35,000 to \$75,000. For the 2004-2005 policy year the savings are estimated to be \$64,045 to be placed in the new fund. This fund would then build annually to a \$1,000,000 maximum amount. All additional premium savings from increased deductibles/retentions or funds not used in a fiscal period from the claims deductible budget line item would return annually to the general fund.

The following chart depicts an estimate of how this fund might materialize over the next six (6) years.



As shown in this chart there will be years that the entire \$110,000 Liability Claims budget, (the yellow line), will be expended. During these periods we would draw upon this established reserve fund.

It is anticipated that as the City continues to grow that it will be appropriate to increase our deductible/retention levels. The increasing red "Deductible" line shows hypothetical increases in our deductible.

The sole use of these funds would be to fund claims deductibles. Other use of these funds could be made by City Council through separate Council action.

FISCAL IMPACT

Each year the difference in premium between a \$35,000 liability deductible and a \$75,000 liability deductible would be set aside into the Liability Reserve Fund. For the 2004-2005 fiscal year this is \$65,000. The \$65,000 represents new budget dollars for the 2004-2005 fiscal year.

Additionally, remaining funds in our Liability Claims Deductible account, beginning with the current 2003-2004 fiscal year, would on June 30 of each year be placed into the Liability Reserve Fund. The amount of those remaining funds is estimated to be \$75,000 in the current fiscal year.

REVIEWED BY:


Larry Price – Finance Director


Jim Oeser – City


Grant Anderson – Deputy City Manager


Stephen Cleveland – City Manager

PREPARED BY:

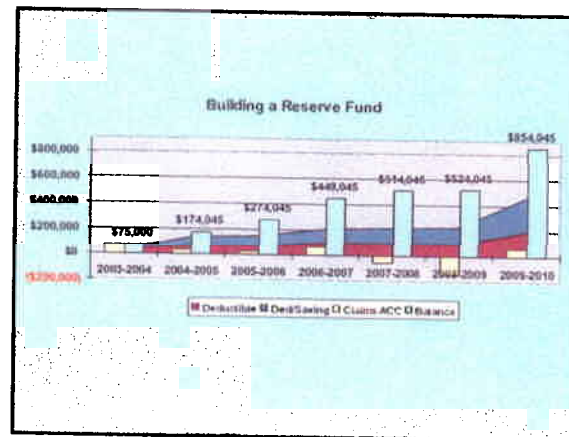
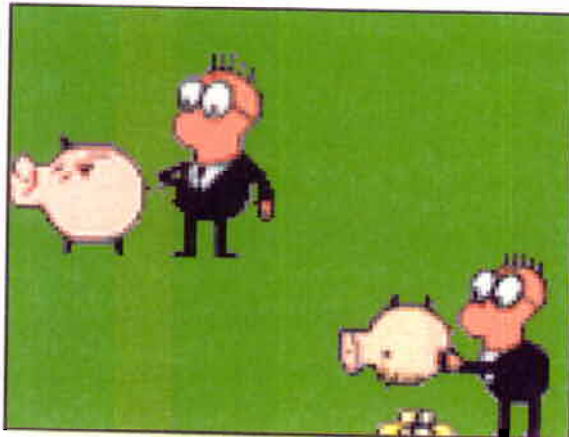

Dean Coughenour-Risk Aversion Manager


Kay Wilkinson – H.R. Director

Risk Aversion Management Part Two General Liability Reserve Fund

CONTROLLING THE COST OF RISK

- LIABILITY STABILIZATION FUND
- SAVING BUDGET DOLLARS OVER TIME
- STABILIZING THE COST OF INSURANCE



Saving Budget Dollars For Tomorrows Needs Through Risk Aversion Management



QUESTIONS??

